RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038

26 LETTERS PER YEAR • $225 ANNUALLY

May 31, 1989 **LETTER 1018**

May 12 DJIA 2439.70; PTI 3008; A-D Ratio -8.83
May 19 DJIA 2501.10; PTI 3039; A-D Ratio - 8.15
May 25 DJIA 2482.59; PTI 3049; A-D Ratio -8.28
Current Dow Yield: 3.35%; Dow P/E: 11.0
Dow Book Value: 1009; Dow 200-day MA: 2200
DowPow: 957
Percentage of undervalued blue-chips: 19%

THE PICTURE: We're back from Europe, and here's what struck us. It's the globalization of the world. Tourists everywhere, familiar consumer products everywhere, newspapers everywhere, TV, radio, computers -- it's obvious what is happening. Communication, instant communication, is turning the world into one big corporate village.

At a movie house in London we saw 15 minutes of super-clever advertisements (they were about one minute each). They were shown prior to the main feature. "These are fantastic," I said, "they're better than most features. Why don't they have them in the US?" "They will," replied Faye, "it's only a matter of time." And I'm sure she's right.

USA Today is on the European newsstands together with the *European Wall Street Journal* and the *International Herald Tribune* and maybe a dozen other newspapers. CNN on TV in our London hotel room along with the BBC news. Times have changed. When I moved to California from NYC in 1961, I had to wait five days for the *New York Times* and the *WSJ* to arrive via the US mail. Now I can get a hundred times more news about the stock market and everything else from a hotel room in a major European city.

You walk through the streets of London or Paris (and did we ever walk, I've still got blisters on both feet to prove it) and you see the evidence of globalization, of "one world," everywhere. McDonalds, Burger King, American Express, Japanese electronics, French perfumes, British tweeds, Mercedes cars; the shopping in London is every bit as good as New York (probably better). In Paris, too, you can get anything you want including probably the best meals in the world

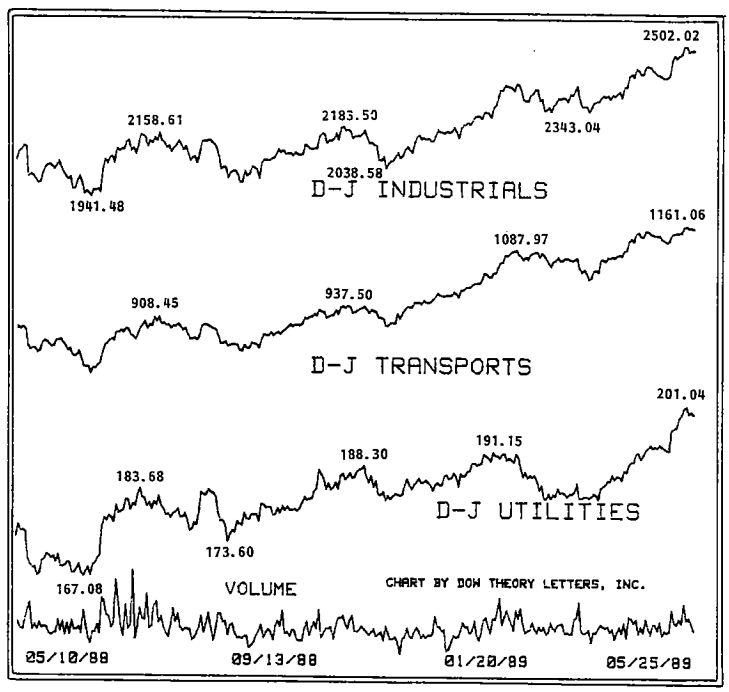
There are no foreigners anymore. Nobody's a stranger. Today the whole world knows what the rest of the world is doing. And obviously that includes the Chinese and Russians (to the great frustration of their leaders). Electronics, computers, and TV have put the pressure on the dictators of the Communist world. The Chinese and Russian people realize that prosperity has passed them by. They realize that Communism is simply an unworkable brand of prehistoric economics. THEY KNOW. The message for Russia and China is get into the modern world or sink into economic bankruptcy. The pressures of stark, economic reality is leaving the Communist power elite gasping and playing for time. Instant world communication has murdered Communism -- and it's making the free world one world.

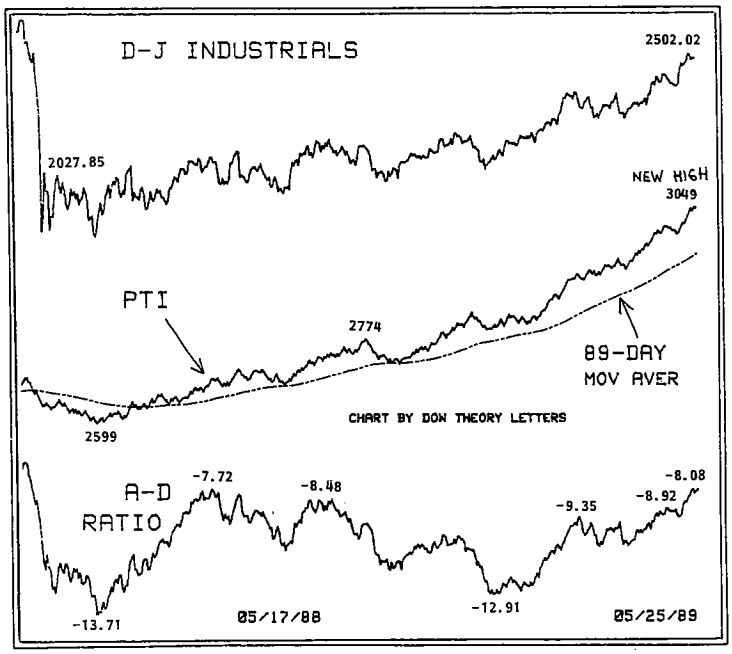
So far, it's clear that the stock markets of the world like what they see. Markets around the globe are pushing higher. I study my weekly charts: Japan's Nikkei is at a new high; the UK Financial Times Average near its 1987 high; the West German Commerzb Index recovering better than half its '87 losses; Barron's Low-Priced Index at a new high; the D-J Transportation Average at a record high, and on and on.

But wait a moment. There's one big "fly in the ointment." That fly, of course, is the action of the D-J Industrial Average, the most widely-watched of all market indicators. The Dow reached an all-time high of 2722.42 back on August 25, 1987. But despite the avalanche of happy corporate news that has emerged since the crash, despite 20 months of upside action, the Dow has not yet been able to recover all the points lost in that incredible three-month 1987 disaster. On top of that, market sentiment has recently turned from disbelief to belief. It's now widely conceded that "this is a bull market." But if it's a bull market, why doesn't the Dow confirm on the upside?

Could the Dow simply be teasing us? Or could the Dow Theory have thrown out a false signal just to show Wall Street that no method is infallible? Or is it simply a matter of time before the Dow surges above the old 2722.42 benchmark? That's the beauty and the mystery of the stock market. Wall Street doesn't provide us with a crystal ball (it doesn't have one). And Wall Street doesn't advertise its action ahead of time (if it did, the market as we know it would cease to exist).

The economic cross-currents today are astounding. Consider this: the M1 money supply on a year-to- year basis is now at its lowest level in 20 years (a level that normally calls for recession). Business loans are at a new high (which normally puts pressure on the money markets). Inflation in our trading partner nations is starting to heat up (which is boosting world interest rates). The dollar has turned strong (this should hurt our trade balance). The spread between junk bond yields and T-bond yields has widened to better than 4.6% (indicating concern about a forthcoming recession). The Producer Price Index has pushed up to 7.3%, and that suggests rising inflation. The *Journal of Commerce's* Spot Industrial Commodity Price Index is near a record high (again, inflation). The UK just raised its bank rate to 14%, and Japan and West Germany will probably (in view of the strong dollar) shortly have to raise their own bank rates. And, oh yes, our big debtors such as Argentina and Brazil are on the edge of chaos. The odds of their paying off their debts have sunk to zero -- or less.





Against all that, business remains good. Corporate profit statements are, in general, rosy. Unemployment claims (economist Ed Hyman calls these "the best overall economic indicator") declined in April suggesting that the US economy is actually reaccelerating. Says Hyman, "Synchronized world expansion -- on balance, economic news abroad is still coming in on the strong side. This strength abroad increases the odds that the US economy will stay stronger, longer." On top of all this, department store and auto sales firmed in April. It seems American consumers aren't exhausted yet. They are, in fact, still spending their heads off.

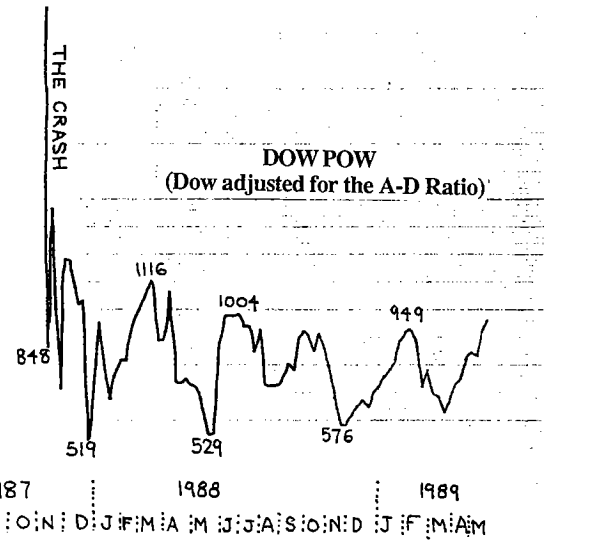
I came back to the office to be greeted by a two-foot pile of newspapers, advisory services, magazines, letters, and financial data. Half of it was outdated by the time I picked it up. We (Faye and I) immediately got to work entering the statistics and updating the charts. The bond market had continued its bullish rise, gold had continued its bearish decline, stocks had surged, commodities remained in the doldrums or worse, the CRB Commodities Futures Index broke below its critical 236 area, and the Dow, despite explosive pops, was still better than 200 points below its 1987 bull market high.

Then we updated my Primary Trend Index (PTI). The PTI has been surging into new high territory. If there is any weakness in this market, the PTI doesn't see it. The fact is that the last time the PTI backed off far enough to touch its moving average was in August 1988. Since then -- well you can see for yourself what's been happening to the PTI. Just turn to the chart on page 2.

DowPow (my proprietary indicator of the Dow adjusted for advances and declines) finally did something good! DowPow on its most recent advance rose above both its October 21 peak and its February 8 peak -- to its highest level since June 5, 1988. The whole DowPow surge occurred between May 12 and May 19, but the point is that DowPow finally showed some strength. It's been a long time.

Then there's the advance-decline ratio for the NYSE. This has been a flagrant and discouraging laggard. Two weeks ago, however, the A-D ratio rallied to its highest level since its peak of April 1988. Daily new highs on the NYSE also obliged by rising above 200 -- to 229.

Is it happening? Is Wall Street having fun yet? No question, the stock market's been looking better -- particularly since mid-May.



And if you've been playing the game with the PTI as your pilot, you've got some nice profits. But as I said earlier, the Dow is still well below its 1987 bull market high. And the market (as it always is when it's in an overvalued area) is getting very tricky.

As noted in the upper-right section of page 1, the "percentage of undervalued blue-chip stocks" is currently at a low 19%. This means that less than one out of every five blue-chip shares on the NYSE is a bargain. That kind of low percentage has identified more than one top area in the past.

Bondholders are happy (new highs almost daily in the muni bond index); stockholders are happy (many major averages near their bull market highs). Meanwhile, the bear is sulking and skulking. But I wouldn't count him out yet.

Wall Street seldom gives us a riskless gift, and this market has been on the recovery path for a long time. This is the seventh year of a rising Dow. The Dow has never risen eight years in row. So the word is, "have a care." When I was a kid and somebody tripped or stumbled, we used to say, "easy greasy, it's a long slide." That phrase should prove valid again when my PTI finally turns down and breaks its moving average.

THOUGHTS: Gary North observes that the second most pleasurable thing on earth is to be out of the market when it's falling. Then he adds, "But not if it's taking Western civilization down with it." Now there's a thought!

There are times when I have been 100% in the market, times such as at the 1974 bottom or at the 1957 bottom. This is not one of those times. Too many things about this market bother me, and I mean technical things, like the stubborn refusal of the Dow to confirm the new record Transport high.

Peter Eliades (*Stockmarket Cycles*, 2260 Cahuenga Blvd, LA, CA 90068) has an excellent record for market timing. In his latest Letter Peter states, "There is little doubt in our cycle work and analysis that the market action of the next 6-9 months will be of historic proportions. . . . In a nutshell, there is good reason to believe that before the first quarter of 1990 has come to an end, a devastating bear market will have begun. It could begin long before that, perhaps even in the current time period, but it should almost surely have begun by March of 1990." As I said, Peter has a very good record.

Of course, this type of analysis differs totally from my PTI approach. The PTI doesn't profess to forecast anything. It doesn't care about cycles or time spans or economics. It only cares about what the market is actually doing. When internal market weakness becomes persistent enough to turn my PTI decisively down and to hold the PTI below its moving averages, that will be the signal for big trouble. When that happens we will know that the bear is again emerging from his lair.

INVESTMENT POSITION: As far as Dow's Theory is concerned, the primary trend of the market has not been proved bullish. (It won't be unless or until the Dow hits a new high above 2722.42.) Thus, the bear stays in the box.

On the other hand, my PTI is saying (as it has since January 1988) that there's only one side of the market to be on, and it's not the short side. Currently, the PTI is at one of its widest spreads above its moving average that I have seen in 18 years of studying this indicator. A slowing down of the market's climb would seem to be in order.

I continue to hold all my bonds (mostly munis). All the money instruments I have purchased over the last five years are up, even the two- to four-year notes that I bought a few months ago (when rates were a juicy 9.4%). Remember this -- over the last 60 years the total return on stocks has averaged about 10% a year. Thus, whenever the yield on high-grade bonds nears 10% those bonds become highly attractive. After all, bonds at a near-10% yield guarantee a return that one only hopes to obtain when one buys equities.

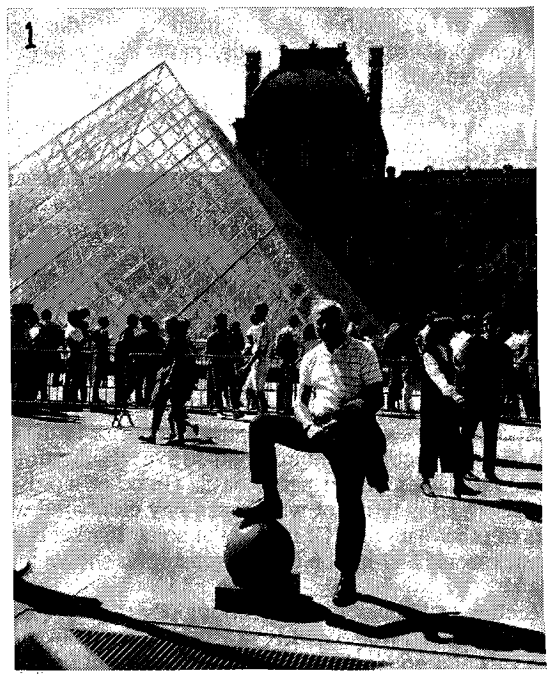
Of the 30 Dow stocks, I now count 11 as clearly bullish. These are Aluminum; Amer. Express; AT & T; Boeing; Coca Cola; McDonalds; Merck; MMM, Philip Morris; Texaco; United Tech. Proctor & Gamble is about to turn bullish (on relative strength). Beth Steel is now looking shaky. Kodak and Exxon look poor, Texaco (still bulllish) is losing strength, Carbide is close to turning bearish, USX looks uninspiring, and Woolworth appears very close to turning bearish. Gen. Motors is deteriorating with its relative strength now bearish. IBM is wondrously negative -- it's relative strength continues to hit new lows, and the fact is that IBM has done little since the crash.

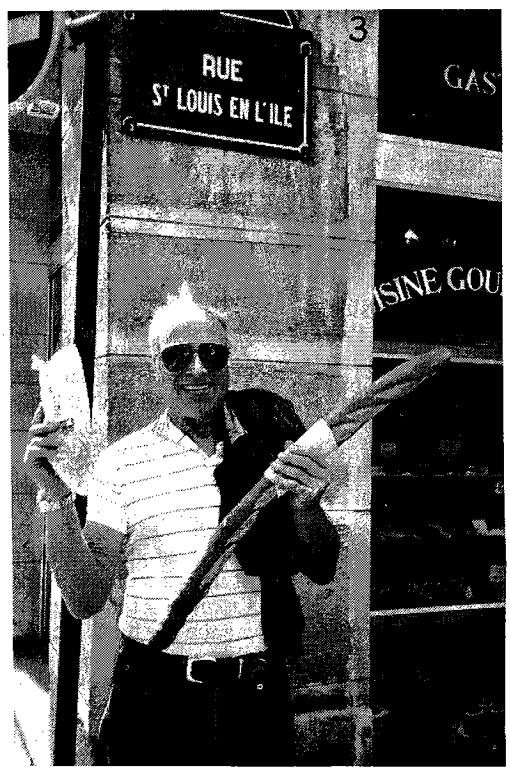
PROOF: There, this should prove we were there. Photo #1 -- Me standing in front of the new Pei glass and steel pyramidal entrance to the Louvre. The Pei fantasy clashes wildly with the stately Louvre architecture, and nobody seems to know what to make of it. Nevertheless, the structure is already world-famous.

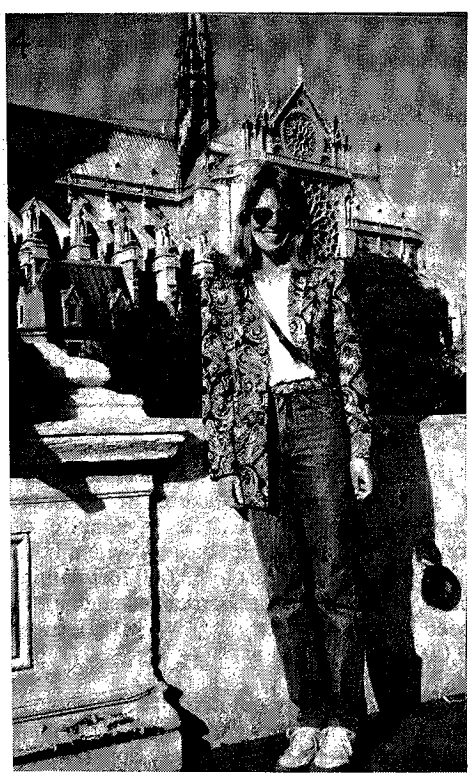
Photo #2 -- This is the 100th anniversary of the building of the famed Eiffel Tower. When the Tower was first built it was denounced as an "ugly skeleton." Now the French love it.

Photo #3 -- Russell, trying to look like a Frenchman. I'm holding our breakfast, a loaf of whole wheat bread in one hand and a baguette in the other. The French bread is delicious and irresistible, and it's made with no preservatives.

Photo #4 -- Here's Faye (behind that wall flows the Seine). The building in the backround is Notre Dame. Note that Faye is smiling. Why? It's just that she loves Paris.







BONDS, DOLLARS: The bond market has acted well ever since the '87 crash bottom. Recently, it has acted better than well -- it has surged. What's been driving the bond market up? To bondholders the answer might be, "Who cares, I bought my bonds for income, they pay off at par, and I couldn't care less whether they're going up or down." Nevertheless, the question above is an interesting one, and it deserves an answer.

One reason for the strength in bonds is that they have been providing fat yields compared with stocks. A second reason is that the economy has been expanding for a record peace-time span of seven years, and somewhere ahead a recession awaits us. Theoretically, at least, a recession should bring interest rates down (as the Fed eases the monetary brake). Therefore, the rising bond market may simply be looking ahead to easier rates. A third reason is that the commodity futures have refused to rally (they've actually been acting very poorly), and gold has been sinking. Both phenomena are suggestive of deflation or at the least -- non-inflation (and, of course, bonds, particularly high-grade bonds, like deflation).

Recently, a new reason for the bond boom has entered the picture. The reason is the explosive rise in the dollar. Last week the dollar raced past all the ceilings placed on it by the Group of Seven. The dollar rush started with the breaching of 1.90 on the Deutsch Mark and that action was confirmed when the dollar flew through the 135 level on the yen.

This means that foreign buyers of US bonds can look forward to the double whammy. Their bonds are going up, and they're garnering additional profits because their dollar-denominated bonds are rising in terms of their own (foreign) currencies.

Next question: What's with the whopping recent rise in the dollar? Is the US finally becoming more competitive? Is the dollar too cheap on a purchasing power parity basis. (In other words, is the dollar undervalued in terms of what it can buy compared with the currencies of other nations?) Or maybe the dollar market is pleased with the unexpected $41 billion US budget surplus shown in April?

My own feeling is that yes, on a purchasing power parity basis, the dollar is undervalued (Faye and I saw that in London where we paid for meals and goods that we could have bought for 30% less in the US). Another reason for dollar strength is supply/demand. With the growth rate of the money supply plunging to its lowest rate in 20 years, there could actually be a scarcity of dollars.

But perhaps the biggest reason for the dollar's rise is technical. Don't forget, the dollar over the last five years had dropped almost 50% in terms of the other major currencies. In other words, the dollar went into a slow-motion crash. When you get that kind of downside action (as my subscribers know well), then somewhere ahead you are going to get a correction, and usually a big one. It's my feeling that the world got too bearish on the dollar, despite the fact that the dollar had already lost half its value.

So I think that what we're seeing now is the dollar's upside correction. And don't kid yourself, corrections such as this (following major collapses) can be powerful. This dollar correction so far has been powerful enough to brush aside massive central bank intervention.

THE TRIP: Three hours and 22 minutes. That's how long it took us on the Concorde, takeoff to landing, from New York's Kennedy Airport to Charles DeGaulle Airport in Paris. The Concorde is a marvel. It takes off with all the force and thunder of an Air Force jet, climbs to 33,000 feet within 10 minutes, picks up speed, breaks the sound barrier (mach one), hurdles on to twice the speed of sound at mach 2 (1340 MPH), speeding over the earth at 60,000 feet.

The Concorde was quieter than we thought it would be, quite comfortable, and very exciting. On the plane you get wined and dined, great food, champagne, constant attention, gifts, treats, fussing -- you're treated so well on the Air France Concorde that it's almost embarrassing. On the return (London to NYC), we took the British Concorde, same plane, same amazing speed, same courtesy, but food maybe not quite as good. On our way back, when we left NYC for California on a Boeing 747, Faye turned to me and said, "After the Concorde, I feel as if we're moving in slow motion."

The trip: New York is still the same pushy, money-hungry, over-crowded city it's been for the last 30 years. Paris is a breathtakingly beautiful city, a walker's paradise. London is a mad house, wildest traffic we've ever seen. London is no place for a quiet, restful vacation, but it's filled with history, great buildings, marvelous (and expensive) stores.

Over the last year Faye and I have spent time in New Orleans, Los Angeles, San Francisco, New York, Paris, London. Here are some of our impressions. I'm sorry to have to say this, but the feeling I have about the big American cities is that they have become hostile and menacing. By that I mean that even by day there are places in major American cities I wouldn't go (and I include San Diego). And after 12 p.m. you wouldn't find me walking about in any American city. The dope situation in the US has become so all-pervasive, so violence-filled, so sinister that it literally dominates the night. We've seen this same situation (add to that racial problems) in every major US city we've visited. Sad but true, much of the US has become dangerous to your health.

New York runs on money. Everyone is looking for the deal, the buck, the power. My impression of NYC is that one-half of its residents are either hustling or delivering something to the other half. New York is expensive, but if you're careful and savvy you'll probably get what you pay for. London is also expensive, and you don't usually get what you pay for (except at the theatre).

In New York you can get a good dinner at a semi-reasonable price if you know where to go. In Paris you can't get a bad dinner no matter how much or how little you pay. In London the food (well, food just isn't their talent) is expensive, and the meals are built around fat, cream, butter, oil, and sugar. Even the London salad bars offer fatty food (I couldn't believe it, but the vegetables were soaked in oil). England has one of the highest heart-attack rates in the world. When you see their food, you know why.

The truth -- I'm getting tired of New York. New York is my home town. I grew up in New York. But each time we go there I like it less. New York has turned sunless. The skyscrapers have literally blotted out the sun. The noise in New York is deafening. Car horns blare incessantly. It's absurd, and no other city would allow it. In Paris or London you almost never hear a driver honk. New York should ban horns. Years ago NYC tried to institute a horn law. It never passed.

New York is where you go to make money. New York has too many people and too many mean streets for me. But if you can buy it, if it's for sale, New York has it. We attended an art auction at Christie's and saw Impressionist works bid up into the millions. We had a superb dinner in NY at the famous Le Cirque (thanks to old buddies Gloria and Hank Salm). We saw a terrific show, "Other People's Money," down in Greenwich Village (New Yorkers, don't miss this one). We saw diamonds you wouldn't believe in Cartier (no, we didn't buy any). We saw homeless people and vagrants by the dozens lying in doorways or sleeping over subway gratings (which is how they stay warm at night). We saw a fabulous ultra-modern lobby in the new Royalton Hotel on West 44th street (if you're in NYC be sure to take a look).

The feeling in all three cities, NYC, London, Paris, is one of fat times and general prosperity. People are spending money, bundles of it. The stores in London are overflowing with sumptuous goods. Luxurious menswear and jewelry shops are everywhere. And so are the big black taxis. The motorcyclists are amazing (we couldn't figure what in the devil the hundreds of careening cycles were delivering, but cycles speed around London's crowded streets like so many crazed banshees). At night Piccadilly Circus is a sight. Thousands of kids milling about, many in wild punk attire and nightmare hair. Nothing like this in New York or Paris.

Giant red, double–decker buses, motorcycles and taxis dominate the London streets. Faye and I must have walked 50 miles in London. We also took the subways (tubes) from one end of the city to the other. The subway rush in London equals NYC. Musicians with cups greet you at every station.

The truth -- London was too wild and crazy for us. We were surprised to see that London (like Paris) is built low -- no skyscrapers a la NYC. But the London streets are teeming with people, and I mean teeming. So from the Tower of London to Buckingham Palace we looked, we took it in -- all the while grumbling about the food and the prices. I hate to say it, but we wouldn't go back to London (forgive me, London subscribers). Once, we felt, was enough.

We did see a fascinating movie in London -- it was called "Scandal." It's about the Profumo affair, a scandal which sunk the conservative party during the early 1960s. And, oh yes, we visited Kew Gardens, 300 acres of beautiful lawn, flowers, greenhouses. It's the most restful place in London. We loved it.

The disparity between the upper classes and the general populace is striking in London. The Oxford accents and the Cockney accents are almost like two different languages. The London police don't carry nightsticks or guns. I told Faye, "These brave unarmed guys would be blown away in New York or LA."

The London newspapers are filled with talk about 1992 and the European union. There is much enthusiasm for the new union but also much anxiety. The French are pushing for a single European currency by 1995, but Margaret Thatcher is against the idea. In fact, there is a lot about a united Europe that seems to bother Maggie. As to how the "New Europe" will affect the US, one thing is clear. Major US corporations are preparing for it. I don't think there's a single large corporation that is not now thinking of itself as a potential international player. It is very possible that by the end of the century there will be no large American corporations -- only international entities (at least, that's the feeling I get).

Paris — this is a city to live in. We stayed in a little hotel on a small island situated in the middle of the Seine --Isle Saint Louis. Most of what we had heard about Paris turned out to be wrong. We had heard Paris was expensive, we had heard that the people of Paris were rude and hostile to tourists. What we found was that Paris (at least the Left Bank) is a bargain. First, the little hotel we stayed in cost only $94 a night. We also found that it's hard to get a bad meal in Paris, no matter what the price. We ate at the little Left Bank brasseries. Prices for dinners run from $12 to maybe $20, and I mean the food is GOOD. The French take their food very seriously. Everything is fresh; the French shop for food daily. French bread is wonderful, the sherbert-like ice cream (dozens of flavors) is marvelous. In London we noted that overweight people were everywhere. Not so in Paris, where it's rare to find a fat person (unless you're looking at tourists). The French don't use preservatives in their food. Is that what keeps them from putting on weight? We couldn't figure it.

We walked the length and breadth of Paris. We walked along the Seine, we walked passed Notre Dame, we walked up the Champs Elysees. You name it, we walked there. Paris is built for the ages. Every building looks like a monument. Paris is built of stone, much as New York is built of steel and glass. Paris is very clean. We were amazed at the litter-free streets. The French take great pride in their city. We didn't get that feeling in any other city (except, strangely, New Orleans).

The overwhelming impression is that the world has turned "global." Stores in the big cities carry a lot of the same merchandise. The major stores have branches in every city. You can get McDonald's hamburgers galore in Paris or London. Japanese products are everywhere. The TV in our hotel room in London picked up the CNN channel so we received instant news from the US. We checked out the market at Merrill Lynch in London (where the US market closes at 9PM and many of the brokers are there until the US closing time).

Shopping: There are two stores that deserve mention. Barney's in New York has become, we believe, the best and most interesting store in the US. When I was a kid it was "Barney's, Seventh Avenue and 17th Street," a pipe-rack cut-rate men's store. Forget it. Barney's is now the prettiest store in New York and it carries a great selection of men's and women's merchandise. If you visit NYC, don't leave out Barney's. In London it's Harrad's. This store occupies a big square block and it's seven stories high. Harrad's has EVERYTHING and I mean everything in depth. Pet shop, kitchen wear, travel bureau, men's clothes in a variety you've never seen before, woman's clothes by every designer that every made *Paris Vogue* or *Elle* or *Bazaar*. And food, Harrad's has food you can't believe, food that makes Zabars in New York look like a small-town grocery. Jewelry, watches, Harrad's has a floor full. They have more Rolexes than Tiffany's, more diamonds than Winston (well, maybe not as big). Harrad's is a money-grubber's worst nightmare. You cannot get out of this store without depleting your bankroll. In brief, Harrad's is an extraordinary experience (the store, by the way, was recently bought by a group of Egyptians).

From the Atlantic to the Pacific, there's one product the US exports and that's its culture and above all its music and its movies. American films dominate. They are part of the scenery from the Paris magazines to the posters in the London subways. As for culture: It's American-style blue jeans, US-style hamburgers and pizza, American movie stars, and American words in the language (much to the consternation of the French).

When the big 747 came in for a landing in San Diego, I saw the palm trees swaying and I felt that cool ocean air. As I always do, I turned to Faye and said, "We're back in God's country." So you know that I'm prejudiced. The disgusting fact is that I'm at heart a dyed-in-the-wool Californian.

NOTES & QUOTES: Finance: Governor Dukakis' state of Massachusetts is in a financial mess with a deficit of near $2 billion coming up. In contrast, California (with a huge tax take) will show a surplus of $2.5 billion this year. There are calls for Dukakis' impeachment based on fiscal irresponsibility. That won't happen, but the Duke's popularity among voters has plunged below 50% (based at least partly on his call for a $600 million increase in state taxes).

* *

Scandals of the week: The gossip is that Barbara Bush will have nothing to do with Nancy Reagan. Furthermore, the Reagans have not been invited to any White House parties. Reason: Barbara is retaliating for stories Nancy told about Barbara being dowdy and a poor dresser plus Barbara's habit of letting her kids and dogs run wild around the White House. Second scandal: The Jane Fonda/Tom Hayden split and their coming divorce. Fonda is said to have offered Hayden $1 million plus one thousand bucks a month in alimony. But it is said that Hayden wants half of the big money Jane's made since their marriage (that's legal under California law). It promises to be quite a battle with $millions on the line.

* *

The May 21 *Washington Post* carries an article stating that "From cholesterol to pesticides, dinner has become an exercise in risk assessment." The article is entitled "Fear of Frying."

* *

The real estate boom in California continues. Here are the state's top home appreciation rates by area (year-to-year based on first quarter 1989): San Francisco up 31.8%; Anaheim-Santa Ana up 30.2%; LA up 26.3%, and San Diego up 21.9%. People come to the West Coast, and they can't believe the prices.

* *

Speaking of booming statistics, here are the lastest US divorce rates. Current figures show that 51.6% of all new marriages will end in divorce. Of those marriages that last five years, 41.9% will end in divorce. After 10 years of marriage, the odds drop to 30%. It's a changing world, and changing spouses is part of the change.

* *

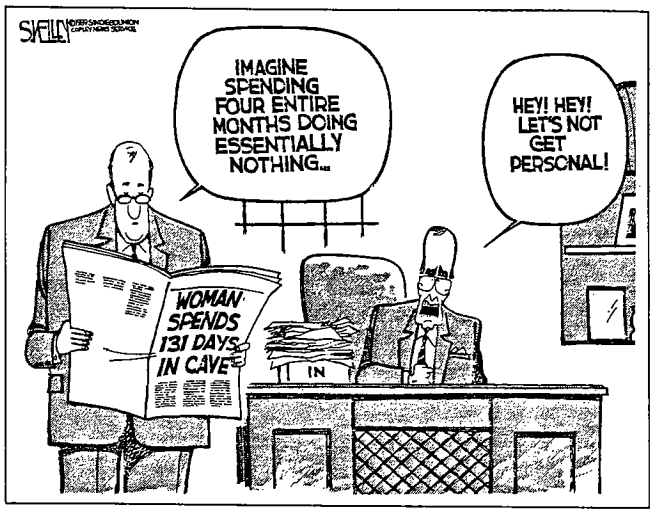
Heart: The biggest prize in the pharmaceutical field today lies in the area of cardiovascular area (which kills more Americans than any other disease). No less than 47 companies are at work developing 87 assorted heart and cardiovascular drugs. While in England we noted that a new English drug made headlines -- the drug is supposed to cut deaths from heart attacks in half (via a blood-clot dissolving chemical).

* *

Pay-off: According to the book, "Kings of Cocaine," by Guy Gugliotta (Simon & Schuster), Columbia's Medellin cocaine cartel eventually grew so rich that it offered to pay off Columbia's entire foreign debt -- in return for immunity from prosecution.

* *

Opinions vary, but this cartoon by the *San Diego Union's* Steve Kelley presents a fairly common view of Mr. Bush during his first year in office. The widespread opinion is that Gorbachev has captured the attention and imagination of the world while Bush is reacting in a sort of tepid, fuzzy way.


IMAGINE SPENDING FOUR ENTIRE MONTHS DOING ESSENTIALLY NOTHING...
HEY! HEY! LET'S NOT GET PERSONAL!
WOMAN SPENDS 131 DAYS IN CAVE
IN

Rubles: According to *Reuters*, Russia has printed so many rubles that it could buy all the goods in Western Europe -- if only somebody would accept rubles at anywhere near the official rate (but the official rate of $1.60 has no connection with the black market rate of seven cents!). The flood of rubles has set off a vicious inflation in Russia, one that the authorities have only begun to admit to.

* *

Is there any free and unobstructed passage between Russia and the US? Yes, in Alaska/Siberia where at one point only three miles of ice separate the two nations. A recently signed treaty allows Eskimos to travel at will between the two nations. Some US Eskimos have not seen their relatives (who live in Siberia) for 40 years. Now all that has changed.

* *

The public evidently believes that the government is going to solve its deficit and over-spending problem that way it always does -- with higher taxes. This has made tax-free municipal bonds a favorite. In fact, the munis have been widely-labeled "the last legal tax-avoidance game in town." I've been saying that for a number of years. And it's true. Munis aren't simply tax-deferred, they're tax-free. The money you get from municipal bonds is like money received in 1900 -- before anyone knew the meaning of the phrase, "income tax."

* *

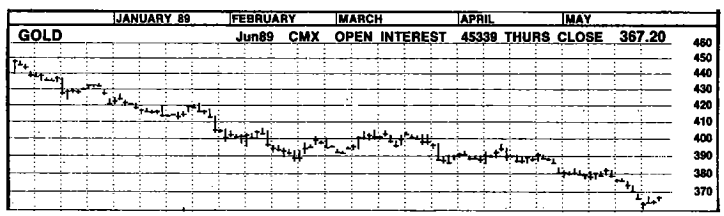
Speaking of munis, two states with fat taxes have attracted an amazing number of state muni funds (funds that invest in munis only from that single state). New York, with a combined state/city tax rate of 11.275%, has 39 muni funds aimed at its residents. Top one-year yielder was Value Line at 7.45%. California, with city/state taxes of up to 9.3%, has no less than 48 muni funds aimed at it. Top one-year yield honors goes to Benham High Yield at 7.65%.

* *

Do you sincerely want to buy a professional football franchise? Don't worry, a new league (which will play in the spring) will not be a dud. Why? It's the World Football League, it will be run by Tex Schramm (lately of the Cowboys), and it will operate as a corporation under the NFL. Which is why it's almost sure to work. The new league will start out with six US teams and six overseas teams (almost sure to include Italy, England, a Scandinavian country, Spain, and West Germany). Two networks, NBC and ABC (both without baseball contracts), are already interested. Interested? Call the WFL: (214) 556-0220.

GOLD: The pessimism about gold at this point is literally as powerful as was the enthusiasm regarding gold when it roared into the 800s during the 1979-80 period. What you want to watch in the markets is how prices react in the face of extreme emotions. For instance, when pessimism is rampant (as it is now towards gold) the item which the pessimism is directed towards should decline. Immunity to bad news is one important sign of a bottom.

And that's why I feel that the gold action is particularly interesting at this juncture. This gold chart (courtesy of *Investor's Daily*) traces the long decline in gold. Note the recent downward "swoop." Such precipitous declines often wind up a bear market, and I'm waiting to see whether London spot gold will close substantially below 359. If it doesn't, gold could be tracing out a bottom.



In the meantime, continue to accumulate gold bullion coins on a monthy fixed-dollar-amount basis. Remember, stocks, bonds and currencies go out of style and ultimately they all disappear. That's not true of gold. Gold was money in the time of Christ, gold will be money a hundred years from now. Every investor should have some real money. Here's your chance to accumulate some in the mid-300's.

LATE NOTES: I'm off to LA to the wedding of my daughter, Betsy (she's the actress). It's going to be a big wedding. When they say "big" in LA they mean BIG. I'll report on the action in the next Letter.

Meanwhile, the market seems to be resting. My PTI has been extraordinary. The last reading on the PTI is 3049, highest level ever. The PTI just keeps pushing up, and it is now a whopping 100 points above its own 89-day moving average. I don't ever remember the PTI being this far above the MA. This could mean that the market needs a rest, consolidation, or correction. But if there's one thing I've learned about the PTI it's that is doesn't pay to outguess it or try to forecast its movements in advance.

The US auto dealers are choking on inventory now with both Ford and GM planning to close plants for a few weeks. Sales of new homes are also sagging, but so far Wall Street seems to like the slowdown, and the PTI keeps pushing higher.

Many economists continue to forecast a coming slowdown or recession based on the continued decline in the growth rate of the money supply. At this point , however, the stock market doesn't seem the least bit worried about a recession, a slowdown or lower earnings.

Not so the bond market. Lower yields indicate that the bond market is preparing for easing by the Fed. And the wide spread between the yield on junk bonds and the yield on T-bonds tells us that the junk bond market is preparing itself for trouble (although a recession could be bullish for high-grade bonds, it could also play havoc with heavily leveraged companies that have been financed by junk bonds).

NEXT MAILING: Wednesday, June 14